

W. Scott Randolph
Director – Regulatory Affairs



Verizon Communications
1300 I Street
Suite 500E
Washington, DC 20005

Phone: 202 515-2530
Fax: 202 336-7922
srandolph@verizon.com

December 3, 2002

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Universal Service Contribution Assessment, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, and NSD File No. L-00-72

Dear Ms. Dortch:

Verizon urges the Commission to adopt a modified interstate revenue-based universal service assessment methodology using a collect and remit approach. Adopting a collect and remit process would address the major concerns with the current revenue-based system that bases contribution on billed revenue data that is six months in arrears. Basing assessments on a projection of current period actual interstate revenues will eliminate problems with both the lag between reporting and assessment and the carrier markups of recovery charges necessitated by uncollectibles.

Herein Verizon offers an explanation of how a collect and remit process would function to ensure that these concerns are adequately addressed without imposing undue implementation burdens or costly ongoing administrative activity.¹ Specifically, it is vital that contributors not be required to analyze each bill to capture, report and remit the amount of contribution surcharge actually collected from customers. Instead, a process that uses company-specific billed revenue amounts adjusted by a retail uncollectible factor should be utilized.² This would permit maximum use of existing data yet yield a reasonable proxy for collected revenues. Moreover, to ensure that there are not significant administrative burdens in the new system, companies should be permitted the option to contribute based on estimated revenues every month, to be trued up on a quarterly and annual basis. The Commission should also continue to allow carriers flexibility in billing customers for universal service assessments on a flat monthly charge basis.³

Attached is a narrative description of the collect and remit process that includes illustrative calendar dates for an April 1, 2003 implementation.

¹ Verizon previously provided a summary comparison of the current revenue system with a proposed collect and remit process. *See ex parte* letter to Ms. Marlene Dortch from W. Scott Randolph, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 02-33 and NSD File No. L-00-72, September 6, 2002.

² This is not dissimilar to the method AT&T proposed for determining the number of switched single line connections under the CoSUS proposal. *See ex parte* letter to Ms. Marlene H. Dortch from Patrick H. Merrick, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170 and NSD File No. L-00-72, September 13, 2002.

³ *See* Verizon's Comments, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170 and NSD File No. L-00-72, April 22, 2002 at 8-10.

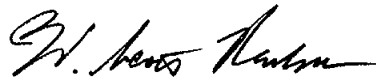
The Commission has a sufficient record in this proceeding to move to a collect and remit process. No party has shown that Verizon's collect and remit proposal would not alleviate the stated concerns with the current revenue-based methodology.

In contrast, the current record does not support the adoption of a telephone number-based assessment as some parties have recently introduced.⁴ If the Commission wishes to consider the telephone number approach, it should issue a further notice and request comment on how such an approach would be implemented and what impact it may have on consumers.

In several recent *ex parte* letters AT&T makes a claim that "unbillables" are a major problem that the Commission must immediately address.⁵ AT&T has not provided any facts supporting the seriousness of this claim or offered alternative solutions for the Commission and interested parties to examine. Additionally, in discussions with other local exchange carrier representatives, Verizon has yet to discover a company that says it has refused to bill universal service charges on behalf of AT&T. A typical comment is that the company will live up to the terms of the contract and include in the bill whatever elements AT&T requests. However, if fulfilling a request requires billing system modifications, contracts may require AT&T to underwrite the expenses of those modifications, and AT&T does not always agree to do so. The Commission has no record upon which to begin to design remedial action regarding any alleged "unbillable" problem until, at a minimum, AT&T (1) provides documentation on which companies are refusing to bill universal service charges on its behalf and the facts surrounding such refusals, and (2) demonstrates that the magnitude of the dollars associated with this new claim is substantial.

Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,



W. Scott Randolph

Attachment

cc: William Maher
Carol Matthey
Eric Einhorn
Paul Garnett
Diane Law Hsu
Christopher Libertelli
Daniel Gonzalez
Matthew Brill
Jordan Goldstein

⁴ See, for example, AT&T *ex parte* letter to Ms. Marlene Dortch from Robert W. Quinn, Jr., CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170 and NSD File No. L-00-72, October 22, 2002.

⁵ See, for example, *ex parte* letter to Ms. Marlene H. Dortch from Robert W. Quinn, Jr. CC Docket Nos. 96-45, 98-171, 92-237, NSD File No. L-00-72, 99-200, 95-116, November 7, 2002.

Verizon
Description of A Collect and Remit Process
December 3, 2002

1. **Contributors file forms with USAC, modified to include a requirement for reporting an uncollectible factor.** Today, contributors submit Form 499-Q to USAC each quarter, and Form 499-A once each year on April 1. The relevant data item provided that would continue to be required is Line 116(b)(c) on Form 499-Q and 420(d)(e) on Form 499-A, "Interstate and International Retail Revenue." This is a billed revenue amount. For the period 4Q2002, Form 499Q would be modified to add a requirement for reporting a Retail Uncollectible Factor. Contributors would be required to develop such a Retail Uncollectible Factor and to continuously update the factor, as more recent financial data becomes available. Contributors would file this information on February 1, 2003.
2. **USAC uses forms to develop revenue estimates.** These two data items would be used by USAC to develop the amount of interstate retail revenue collected by the industry for 4Q2002. That is, USAC would reduce the billed revenue amount by the uncollectible factor to derive a proxy for collected revenues for each company, and add the data submitted by all companies to yield a total industry amount.
3. **USAC projects future revenues.** USAC would project the total industry interstate retail revenue amount for 2Q2003 based upon this actual revenue amount for 4Q2002, past history of billed revenue amounts, and other economic factors/trends.
4. **USAC projects funding needs.** USAC would project the total funding need for 2Q2003 and file with the FCC by January 31, 2003, in accordance with Part 54.709(a)(3).
5. **USAC reports projections.** USAC would file the projected funding need and the projected revenue amount the industry would be expected to collect with the FCC by March 1, 2003.
6. **FCC announces contribution requirements.** The FCC would release a Public Notice announcing the contribution percentage during the first two weeks of March 2003.
7. **Companies calculate contributions and submit monthly payments to USAC.** Each contributing company would determine the amount of contribution to the federal program each month using one of two optional approaches. In either option, on the first of each month USAC would send a monthly invoice to each contributing company. The invoice would not state an actual dollar amount of obligation per month, but rather would have spaces for the company to fill in the contribution amount and other data as described following. In either option, the obligation for the month will be remitted to USAC by the end of the following month (e.g., by May 31, 2003, for the month of April 2003).

If a company chooses to report actual interstate revenues for each month, it would complete the USAC invoice by filling in the billed interstate revenue amount for a month, the company-specific retail uncollectible factor, the calculated collected interstate revenue amount (the result of multiplying the billed revenue amount times

the uncollectible factor), and the calculated amount the company will remit (the result of multiplying the collected revenue amount times the contribution percentage). Contributors that are permitted to use a "safe harbor" estimate would continue to be able to report an amount equal to the safe harbor or to use company-specific studies of interstate revenues to determine their billed interstate revenue amounts.

Alternatively, each month, companies would have the option to contribute based on good-faith estimates of their quarterly contributions for that quarter. Contributions for the first two months of the quarter would be based on estimated average monthly contributions for the current quarter, and would be no lower than the average monthly payment by that firm from the prior quarter multiplied by a factor to be set by USAC.¹ In the third month of the quarter, contributions would be trued up based on actual billed interstate revenue and uncollectible figures reported in the company's quarterly financial reports.

8. For companies electing to report monthly:

(a) Companies determine interstate revenue amount. For companies electing to report their monthly actual interstate revenue amount, for the month of April 2003 each contributing company would begin their normal process of "closing" the revenue accounting books immediately following the last day of April. This process is completed and available for public release by the end of the following month, or May 31, 2003. The total interstate billed end user revenues for the month of April 2003 would then be available in the company's financial reports. These financial reports are developed for numerous internal and external (e.g., company management, shareholder) purposes, and are not new requirements as a result of a collect and remit process. Firms that contribute based on default "safe harbor" levels rather than company-specific studies of interstate revenues would continue to use either their study or the safe harbor percentage to determine their billed interstate revenue amounts.

(b) Companies calculate actual revenues based on uncollectible factors. Companies electing to report monthly actual interstate revenue amounts would take the total interstate billed end user revenues for the month of April 2003 and reduce that amount by the company-specific retail uncollectible factor. This yields a proxy for collected total interstate billed end user revenues for the month of April 2003 for that company.

(c) Companies file monthly reports with USAC. Companies electing to report monthly actual interstate revenue amounts would report to USAC on May 31. This report would include the company-specific total interstate billed revenues, the uncollectible factor, the collected revenues (billed minus uncollectible factor), and the amount of contribution owed (collected times contribution factor) for the month of

¹ This factor would be used to adjust contribution levels for two purposes. First, upon implementation of the collect and remit process, a factor would be used to adjust prior contributions based on six months in arrears billed revenues to projected actual revenues. Second, the factor would be used to incorporate significant increases in funding needs as a result of implementation of new Commission initiatives. If there were no significant program changes in a specific quarter, the factor would be 1.0.

April 2003. This report would be accompanied by payment for the amount of contribution owed.

9. **Annual true-up process.** Just as occurs in the present Form 499 revenues system, on April 1, 2004, each company would submit Form 499-A for calendar year 2003. Subsequently, a true-up process would occur so that over- or under-payments would be reconciled.
10. **Recovery of contributions.** All contributing firms would continue to have the option to apply a customer-specific charge based upon the approved contribution percentage, or to develop and bill an average charge for a similar class of customers. For example, ILECs would continue to be able to bill a flat per month amount to all single line dial tone customers that is equivalent to the average interstate Subscriber Line Charge amount times the Commission-approved contribution factor.

All contributors also would be permitted to mark-up their end user contribution recovery charge by a small amount to recoup administrative expenses directly related to the Federal USF program.²

For firms electing to report monthly actual interstate revenue amounts, on April 1, 2003, each contributor would begin billing to end user customers a charge equal to the Commission-approved contribution factor times the amount of interstate revenues billed to the customer in April, or a uniform flat monthly charge to all similarly situated customers as described above. ILECs now required to file tariffs and obtain Commission approval for the rate level would continue to be required to do so.

Firms electing to contribute based on good-faith estimates of their quarterly contributions (subject to the minimum of one-third of prior quarter contribution levels per month) would begin billing to end user customers on April 1, 2003 a charge designed to recover their contribution amount for the quarter.

* * * * *

Additional streamlining measures. In the interests of streamlining implementation and avoiding imposing administrative burdens, especially on firms that contribute small amounts, Verizon suggests the Commission adopt two additional simplifying provisions:

- a) If at the start of implementation of the collect and remit process, some contributors do not possess their own company-specific retail uncollectible factors, those contributors should be permitted to use an average factor representative of their industry segment (e.g., ILEC, IXC, CMRS). USAC would develop this industry-segment average uncollectible factor based upon data submitted by other contributors. Companies electing to use the average uncollectible factor would be

² Verizon suggests that such mark-up be limited by the Commission to some small, "safe harbor" amount, such as the 1% to 3% level typically permitted by state regulatory agencies for state programs, and that a company be permitted to make a showing to the Commission if it believes its administrative expenses are above that amount. See, Verizon Comments, April 22, 2002, at 10, n.9.

required to develop such a factor for calendar year 2003 and to report that factor on Form 499-A in April, 2004, to enable the true-up process to function as intended.

- b) Further, the existing *de minimis* exemption (Part 54.708) the eliminates the need for firms with contribution levels less than \$10,000 per year to contribute would continue to remain in place.